

1.07 Balance Sheet

Overview

The balance sheet, also called the Statement of Financial Position, reports the effect of transactions at a point in time. It consists of assets, liabilities, and stockholders' equity. (ASC 210)

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Assets and liabilities are broken down into *current* and *noncurrent*:

- **Current assets** are assets that will be used up or converted into cash within one year or the operating cycle, whichever is longer. Examples include cash, temporary trading securities, accounts receivable, notes receivable, inventories and prepaid expenses.
- **Current liabilities** are liabilities that will be settled within one year or the operating cycle, whichever is longer. Examples include accounts payable, accrued expenses, dividends payable, income taxes payable, current portion of long-term debt.

Cash & Cash Equivalents

Cash is the most liquid asset of an enterprise; thus, it is usually the first item presented in the current assets section of the balance sheet.

A **cash equivalent** is a financial instrument (investment) that meets the following criteria:

It is easily convertible into a known amount of cash (**highly liquid**).

It has an **original maturity of three months or less** from the date of purchase.

For example, a 5-year U.S. Treasury Note will be considered a cash equivalent if the investor acquires the investment on the open market when its remaining time to maturity is under three months. Such an investment so close to maturity presents very little risk of change in value due to changes in interest rates.

An investment that has been excluded from cash equivalents because of a term exceeding three months will not be reclassified to cash equivalents as it approaches the maturity date. This is because there is no transaction or event occurring three months before maturity that would justify the preparation of a journal entry.

Other examples of cash and cash equivalents include:

- Coin and currency on hand (petty cash)
- Money market accounts
- Unmailed checks
- Savings accounts
- CDs with an original maturity of three months or less
- Negotiable paper (bank checks, travelers' checks, money orders)

Items **excluded** from cash:

- **Compensating balances** – These are legally restricted deposits that are either a current or noncurrent asset, but are not considered part of cash. If funds are not legally restricted, they are presented along with cash.
- **Postdated checks or NSF (NonSufficient Funds)** are receivables.
- **Overdraft protection**
 - If there is more than one account in the same bank, net them. If positive, show it as cash. If negative, show it as a current liability.
 - Cash accounts in different banks cannot be netted. Show the positive account as an asset, and the negative account as a current liability.
- **Restricted cash**
 - **Balance sheet**
 - **Current** – Cash that is restricted for use on a current asset/liability within one year is considered current. However, it is segregated from cash because it is not available for use in current operations.
 - **Noncurrent** – Cash that is restricted for use on a noncurrent asset/liability (eg, bond sinking funds) is considered noncurrent. It is presented in the either other assets or investments.
- **Postage stamps** are considered supplies (prepaid expense).

Bank Reconciliation

Bank reconciliations are used to reconcile differences between cash balances per bank and per book to arrive at a corrected balance between the two. Several factors can cause a difference between bank and book cash balances, such as deposits in transit, outstanding checks, errors, or bank service charges. A simple bank reconciliation looks something like this:

Balance on bank statement	Checkbook balance
+ Deposits in transit	+ Amounts collected by bank
- Outstanding checks	- Unrecorded bank charges
± <u>Errors made by bank</u>	± <u>Errors made in recording transactions</u>
= Corrected balance	= Corrected balance

Roger Company
GAAP BALANCE SHEET/Statement of Financial Position
December 31, Year 20X7

Assets

Current Assets

- Cash and cash equivalents
- Restricted cash (current)
- Temporary term investments (trading securities)
- Receivables (NRV)
 - Tax and other refunds
 - Receivables from affiliates and employees and overpayments to creditors
 - Accounts receivable, net of allowance for credit losses
 - Current portions of installments receivable and notes receivable
- Inventories (LCNRV)
 - Raw materials
 - Work-in-process
 - Finished goods
- Prepaid expenses (eg, insurance and rent)

Total Current Assets

Noncurrent Investments

- Nonmarketable securities (eg, equity method securities)
- Long-term investments in marketable debt securities
 - Available for sale
 - Held to maturity

Property, Plant, and Equipment (Fixed Assets)

- Land, buildings, and improvements
- Machinery and equipment, leased assets
- Less accumulated depreciation

Intangible Assets (net of amortization)

- Goodwill
- Other identifiable intangibles (such as patents, trademarks, and copyrights)

Other Assets

- Deposits
- Restricted cash (noncurrent)
- Noncurrent receivables (including noncurrent portions of installments receivable and notes receivable)
- Noncurrent deferred tax asset
- Equipment to be disposed of

Total Noncurrent Assets

Total Assets

Liabilities & Stockholders' Equity

Current Liabilities

- Short-term notes payable
- Accounts payable
 - Accrued expenses (eg, salaries and wages, interest, and utilities)
 - Estimated current liabilities (eg, warranty expense)
 - Taxes payable (eg, income taxes, collected sales taxes, and withheld payroll taxes)
 - Unearned revenues (including rents or fees collected in advance)
- Dividends payable
 - Current portion of long-term debt (eg, noncurrent portions of finance lease obligations and notes and loans payable)

Total Current Liabilities

Noncurrent Liabilities

- Notes payable (net of current portion)
- Bonds payable
- Noncurrent deferred tax liability
 - Other noncurrent liabilities (eg, noncurrent portions of finance lease obligations and warranty obligations)
 - Deferred liabilities (eg, liabilities under pension plans, post-employment plans, and post-retirement plans)

Total Noncurrent Liabilities

Stockholders' Equity

- Contributed capital (APIC)
 - Preferred stock
 - Common stock (net of T/S at par)
 - Additional paid-in capital (APIC)
- Noncontrolling interest
- Earned capital
 - Retained earnings (appropriated and unappropriated)
 - Accumulated other comprehensive income (OCI) - (DENT)

Subtract

- Treasury stock at cost

Total Shareholders' Equity

Total Liabilities & Equity